

## **2005 UNEMPLOYMENT INSURANCE LEGISLATION**

### ***Creating a More Balanced and Equitable Unemployment Insurance System for Idaho***

January 2005

#### **BACKGROUND:**

##### **Idaho's Unemployment Insurance (UI) Tax Picture**

- The Idaho Legislature has frozen Unemployment Insurance (UI) tax rates since 2002 at an average effective rate of 0.8%, saving Idaho businesses \$110 million during the last 3 years.
- Idaho's average UI tax rate of 0.8% compares to a national average approaching 0.8% in 2004. The national average UI tax rate is expected to increase further over the next several years.
- The tax freeze ended on January 1, 2005. If the Legislature takes no action, UI taxes, due the end of the first quarter, will automatically increase to an average effective tax rate of 1.7%, or 113%. The increase of more than \$100 million would wipe out benefits of the freeze.
- If Idaho experiences modest economic growth (2 – 2.5% annual employment expansion) the current law will increase taxes by \$344 million over the next 6 years.

##### **Idaho's UI Trust Fund**

- An increase in UI benefit payments during the recent recession leaves Idaho's UI Trust Fund with a balance of approximately \$191 million (December 2004), down from \$330 million in 2001.
- Since the recession, UI Trust Funds in eight other states were exhausted and several others are close. Those eight states have had to borrow from the Federal Government to pay UI benefits, and those loans must now be repaid with interest, pushing their UI taxes even higher.
- As Idaho's economy improves, now is the time to replenish Idaho's UI Trust Fund, ensuring a balance that allows us to serve our claimants during any future economic downturns and keep UI tax rates affordable for business.

##### **UI Claimant Benefits**

Idaho UI benefit levels are above national averages in two significant measures:

1. "Replacement Rate" - Idaho ranks 12<sup>th</sup> highest in the nation when Idaho's Average UI Weekly Benefit Amount is compared to Idaho's average weekly wage.
2. "Reciency Rate" - Idaho ranks 15<sup>th</sup> highest in the nation in the percentage of unemployed individuals receiving UI benefits.

#### **PROCESS:**

- Director Madsen appointed a study committee in 2002 to review the state's entire UI system to address the above concerns.
- Sen. John Andreason and Rep. Robert Schaefer served as Co-Chairs of the 17-member committee, which has broad representation of legislators, business and organized labor.
- The committee developed a consensus legislative package that is endorsed by the Governor.

#### **LEGISLATIVE SUMMARY:**

- **Replaces a 113% average tax increase in 2005 with a 12.5% average tax increase**
  - Taxes would increase by \$10.5 million instead of more than \$100 million in 2005.
  - Taxes would increase by \$72 million over six years instead of by \$344 million.
  - The average employer would pay \$35 more for each employee in UI taxes in 2005 under the proposed law, instead of \$400 in additional taxes if this legislation is not enacted.
- **Reduces UI benefit payments**
  - Among other reductions, the Maximum Weekly Benefit amount for an individual claimant would decline from \$325 to \$312 starting July 2005.
  - Benefits would be legislatively reduced by \$8.4 million in 2006 (first year of full implementation).
  - Overall UI payments, with legislative reductions and more aggressive Department enforcement of current rules, would be reduced by \$72 million over six years.
- **Creates a new, more responsive and equitable UI tax system to protect Idaho's UI Trust Fund from insolvency.**
- **Provides additional tools to collect delinquent UI taxes.**
- **Reduces UI fraud by increasing penalties.**

#### **LEGISLATIVE DETAILS:**

##### **1. Adopts a lower "Trust Fund Adequacy Measure"**

The legislation reduces the adequacy measure for Idaho's Trust Fund, resulting in a current balance of approximately \$200 million rather than \$390 million. A lower balance, leaving more dollars with employers, is possible because the new proposed tax system would be more responsive to changes in the economy with smaller incremental adjustments from year to year, and because Idaho's economy is becoming less seasonal over time.

##### **2. Phases-in a New, More Equitable Tax System with More Modest Tax Increases**

- A. Adopts a new more equitable and responsive UI tax structure with the following features:
  - Uses a mathematical equation to compute tax rates instead of the current UI tax table. This equation will provide the capability to raise and lower taxes incrementally, protecting against large swings in tax rates from year to year under current law.
  - Increases equity by implementing the same percentage tax adjustment for all employer rate classes.
- B. Three-year phase-in of the Equitable and Proportional (E&P) tax model:
  - 2005 - 0.9% average effective tax rate (vs. 1.7% under current law).
  - 2006 - 1.0% average effective tax rate.
  - 2007 - The E&P model will calculate the tax rates. (Estimate for 2007 is 1.2 % or 1.3%)
- C. Includes a "safety valve" clause: If there is a Trust Fund depleting recession in 2005, the new tax calculation, without phase-in adjustments, will determine the tax rates for 2006.

##### **3. Reduces UI Benefit Payments**

- A. Indexes the Maximum Weekly Benefit Amount (MWBA), currently set at 60% of Idaho's average weekly wage, to the UI tax rate. As tax rates increase the MWBA would decrease and as tax rates decrease the MWBA would increase between a range of 60% and 52% of the average weekly wage. For 2005, with tax rates at 0.9%, the MWBA would be 57%. This would reduce the maximum weekly benefit amount from \$325 to \$312. (*Savings over 6 years - \$36 million*)
- B. Changes the benefit duration formula by increasing the number of benefit entitlement groups in the duration entitlement table. This would reduce the benefit entitlement of approximately one-half the claimants by one week. (*Savings over 6 years - \$5 million*)

- C. Increases the current re-qualification requirement of earning 12X the weekly benefit amount to 14X for claimants disqualified for quitting work, being terminated for cause or refusal of suitable work. *(Savings over 6 years – Up to \$6 million)*
- D. Makes other technical changes to improve administration but with limited savings.
- E. NOTE: In addition to above legislative benefit reductions, the Department will implement a more aggressive enforcement of the current “work-search” requirement by upgrading the Department’s computer system. *(Savings over 6 years - \$25 million)*

#### **4. Provide Additional Tools to Collect Delinquent UI Taxes**

- A. Increases penalty and interest charges to encourage compliance by delinquent employers.
- B. Assesses an administrative monetary penalty against employers for intentional misrepresentations, collusion with claimants to defraud the system, intentional failure to furnish reports and continuous late or erroneous reporting. Increase the lien interest rate.
- C. Begins collection procedures immediately after a jeopardy assessment has been filed.
- D. Adopts the federal UI law provision for the exclusion from wages of amounts less than \$50 paid for services that are not in the course of the employer’s trade or business.
- E. Restricts transfer of liquor licenses by employers that are delinquent in paying their taxes.

#### **5. Decrease UI Fraud**

In 2004, the Department detected \$6 million in overpayments, of which \$4.07 million involved fraud. About 1,700 claimants were implicated. Their cases averaged nearly \$2,400 each. That compared to the detection of about \$3 million in fraudulent claims in 2003. The Department recovered \$2.71 million last year in overpayments, up from \$2.5 million the year before. But the poor financial condition of most claimants makes recoveries difficult, making prevention critical to reducing fraud losses. To deal with the issue the legislation:

- A. Requests the legislative appropriation of \$890,000 in federal money available to the state to:
  - Create web-based computer application for:
    - a. Employer contact information for UI Benefit claims.
    - b. Employer advance notification to the Department of employees discharged for cause.
    - c. Employer on-line access of claims currently being charged against their account.
  - Modify Department computer systems to assess and track penalties and interest on claimant overpayments.
- B. Imposes additional penalties on claimants who commit fraud by:
  - Adding a monetary penalty to fraud overpayments as follows:
    - First offense = 25% of overpayment.
    - Second offense = 50% of overpayment.
    - Third or more offense = 100% of overpayment.
  - Charging interest on overpayments and on the fraud penalty.
  - Increasing the ineligibility penalty to claimants who commit fraud to the longer of 52 weeks (current law) or until the overpayment, penalty and interest are repaid.

#### **6. Workforce Development Training Fund**

Caps the unobligated balance of the Idaho Workforce Development Training Fund (WDTF) that is funded by a 3% offset of UI taxes. This action will prevent the WDTF balance from growing excessively large during economic downturns when demand for the fund is low and return funds to the UI Reserve Fund, which can only be use for the payment of UI Benefits.